

VIII. Building Renewal

Per ARS §41-1091 B: This substantive policy statement is advisory only. A substantive policy statement does not include internal procedural documents that only affect the internal procedures of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules made in accordance with the Arizona administrative procedure act. If you believe that this substantive policy statement does impose additional requirements or penalties on regulated parties you may petition the agency under Arizona Revised Statutes section 41-1033 for a review of the statement.

(ARS §15-2031) The Building Renewal Fund consists of the monies appropriated by the legislature and administered by the SFB for the purpose of maintaining the adequacy of existing school facilities. All school buildings should be included on the SFB database with the money from building renewal used primarily for buildings owned by the district that are required to meet academic standards, then secondly for other buildings owned by the district. Each district shall establish a separate fund and money used or left for use in following fiscal years must be expended only for:

1. Renovations or repairs of a building
2. Upgrading systems and areas that maintain or extend the useful life of a building
3. Infrastructure
4. Relocation of portable or modular buildings

Funds from building renewal shall not be used for the following:

1. New construction
2. Remodeling interior space for aesthetic reasons
3. Exterior beautification
4. Demolition
5. Purchase soft capital items
6. Routine maintenance above 8% of computed BR amount. This amount is to supplement, not supplant normal maintenance expenditures. Recommended services can be found in Preventative Maintenance documents (Section VII). The auditor general shall prescribe a method of compliance and may conduct discretionary reviews of a district not required to contract for independent audit.

Routine preventative maintenance-services that are performed on a regular schedule at intervals ranging from 4 times a year to once every three years and that are intended to extend the useful life of a building system and reduce the need for major repairs.

If the SFB determines that a school district has spent monies for other than the allowed uses above, the Superintendent of Public Instruction shall be notified to withhold a corresponding amount from the monies due to the district under capital outlay revenue limit.

Building renewal shall be computed thus:

$$\frac{\text{Age of building}}{1,275 \text{ or } 210(\text{portable})} \times .67 \times ((\text{student capacity})(\text{Design SF per student})(\text{cost/SF}))$$

Called BUILDING CAPACITY VALUE

Building Renewal

Age of building-current listed age (current database age after prior renovations computed)

Student Capacity- See New Construction V.C.1 working definition.

Design SF Per student -per ARS §15-2041

Cost per SF -per ARS §15-2041

The SFB shall maintain a database and update it annually to reflect change in age and value of buildings. Each school district is required to report the following by September 1st each year:

1. Number and type of school buildings owned by the district
2. Square footage of each building
3. Age of each building
4. Nature of any renovations completed
5. Cost of any renovations completed

This information may be reviewed or audited or both by the Board staff to confirm this information. If any space in the database is converted to administrative space, the district is responsible for any costs associated with conversion, maintenance and replacement of that space. The age of a building that has been significantly upgraded or remodeled shall be recomputed as such:

$$\frac{\text{Cost of renovation}}{\text{Building Capacity Value}} \times \text{Current Listed Age} = \text{Adjustment}$$

$$\text{Current Listed Age} - \text{Adjustment} = \text{Adjusted Age (for use in BR formula)}$$

By October 15, each district shall report:

1. The projects funded the previous year with monies from the district building renewal fund and expenditure of monies for renovations, remodels, or systems upgrades coming from sources other than the Building Renewal Fund.
2. An accounting of monies remaining in building renewal at end of previous fiscal year
3. A comprehensive 3-year plan detailing uses of building renewal monies.

The SFB shall submit an annual report to the President of the Senate, Speaker of the House, Arizona State Library and Archives and the Governor by October 1 with computation of funds to be distributed for the current fiscal year. The Joint Committee for Capital Review shall review the computations before the SFB distributes monies in 2 equal installments in November and May.

Any new replacement buildings funded with deficiency correction monies are not eligible to receive building renewal until the fiscal year following the completion of the building.

A. Parameters for the Expenditure of Monies from the Building Renewal Fund (Adopted June 3, 1999)

Subsection K of §15-2002 states “that if upon inspection by the school facilities board it is determined that a school district facility was inadequately maintained pursuant to the school district’s preventative maintenance guidelines, the school district shall use building renewal monies pursuant to §15-2031, subsection J to return the building to compliance with the school district’s routine preventative maintenance guidelines. Once the district is in compliance, it no longer is required to use building renewal monies for preventative maintenance.”

In addition, subsection J of §15-2031 states “that a school district may use eight percent of the building renewal amount computed pursuant to subsection G of this section for routine preventative maintenance.”

Subsection H of the same section provides that "If the school facilities board determines that a school district has spent monies from the building renewal fund for purposes other than those prescribed in subsection B of this section, the school facilities board shall notify the superintendent of public instruction. Notwithstanding any other law, the superintendent of public instruction shall withhold a corresponding amount from the monies that would otherwise be due the school district under the capital outlay revenue limit until these monies are repaid."

The Auditor General has established the Building Renewal Fund as Fund 690.

1. Building Renewal Working Definition

The School Facilities Board has established the following working definition for "Building Renewal".

"Building Renewal" means major activities that involve the repair, renovation, or remodeling of a building and the supporting infrastructure, including the upgrade of the systems and areas that will result in maintaining or extending a building's expected useful life.

2. Allowable Expenditures from the Building Renewal Fund (Fund 690) include:

a. Major Renovations and Repairs of a Building

Renovation is the rejuvenating of an existing building or portion of an existing building where the use and occupancy remains the same. This may include the upgrading of major systems, which maintains or extends the useful life of a building or portion of an existing building. The renovation must be significant, such as, an entire floor of a building, several classrooms, etc. Examples include the addition, replacement, or repair of: roofing, electrical, plumbing, heating, ventilating, air conditioning and special systems (fire alarm, intercom, security, telephone, technology, etc.); fixed equipment (fume hoods, laboratory benches, sinks, etc.); interior surfaces and finishes (flooring, walls, ceilings and partitions). Additionally, remodeling for significant programmatic changes where the use and occupancy of the space may be modified is permissible. Examples include: alteration of storage space into teaching space; the remodel of non-classroom space for use as classrooms, etc. Renovating or remodeling of non-academic school facilities (district administrative offices,

maintenance space, bus barns, etc.) to increase useful life or change of purpose may be made only after the specified primary uses of the fund have been met.

b. Upgrading Systems and Areas that will Maintain or Extend the Useful Life of a Building Systems upgrading maintains or extends the useful life of a building or portion of an existing building and may be either a part of a renovation as listed above, or may be completed as a single stand-alone action. Upgrading systems and areas includes the major upgrading of a building system or components of a system that is necessitated by the building's physical plant aging. Examples include the replacement or repair of: roofing, electrical, plumbing, heating, ventilating, air conditioning and special systems (fire alarm, intercom, security, telephone, technology, etc.); Several other functions and categories of work may also be considered as part of upgrading systems and areas, including:

Major Repairs: Major Repairs is the recurring need to keep in good repair building system components, which generally have established maintenance cycles of greater than three years. It is synonymous with major preventive maintenance, e.g., programmed re-coating of roofing surfaces, deslugging of septic tanks, water-proofing of exterior surfaces. Examples include: disassembling and rebuilding of air conditioning systems water chillers and boilers; overhauling large chilled water circulation pumps; filtering and replacing oil in electrical transformers when indicated, rebuilding of compressors, etc.

Life Safety/Code Upgrades: Life Safety/Code Upgrades is specifically related to compliance with life safety/codes, and includes, for example, elimination of dead-end corridors; upgrading of fire alarm systems; improvement of exiting from buildings; installation of fire sprinklers in existing construction; eliminating hazardous conditions; work on emergency lighting, etc.

Handicapped Access: Handicapped Access refers to making facilities accessible for individuals with physical infirmities, e.g., modifications of seating areas, doorways, bathrooms, exterior/interior access, etc., to allow usage by those in wheelchairs or on crutches. Other examples include capital requirements to accommodate the sight and hearing impaired and may include assisted listening systems, special signage, restroom access, elevator modification, etc.

Asbestos Abatement: Asbestos Abatement refers to programs to encapsulate or remove asbestos products, which, if they become airborne or friable, would constitute a health threat. Examples include: encapsulation of asbestos materials in non-occupied portions of the buildings, e.g., above suspended ceilings and removal of exposed, friable, asbestos from permanent occupied spaces, such as classrooms, corridors, mechanical equipment spaces, etc.

c. Infrastructure Costs: Infrastructure is the upgrade, repair or replacement of utility systems or major components of systems that are physically located external to the building itself. Systems include: egress and ingress (drives, parking, sidewalks); electrical distribution; sewer and water; fire suppressant (hydrants, fire lines, storage tanks, pumps, etc.); irrigation; site security (fencing, lighting, etc.); and external sections of building systems, such as telecommunications, computer cabling, etc. Examples include: replacement or resurfacing of

existing parking, drives or sidewalks; replacement, modification or upgrading of sewer and water connections; replacement or addition of fencing or exterior lighting for safety/security, etc.

d. Relocation and Placement of Portable or Modular Buildings Portable and modular buildings are routinely moved in order to accommodate additional children or programs at sites of existing schools. Any costs associated with the movement of these buildings from one site to another would be acceptable. The costs may include such items as: utility hookup, site and/or slab preparation, permitting, or connection of data network.

e. Routine Maintenance

Routine maintenance is the recurring need, typically more frequently than every three years, to keep in good repair building systems or components, and is synonymous with routine preventive maintenance. Examples include: roofing and flashing repair, routine replacement of cooler pads and filters; replacement of light bulbs and ballasts; replacement of drive belts; routine lubrication; routine interior painting schedules; routine elevator maintenance, etc. The statute provides that a district may spend up to 8% of its annual calculated building renewal amount on the functions cited in this section.

f. Staff/ Consultants

The hiring of temporary or permanent staff and/or the use of technical consultants for the purposes of identifying, defining and/or executing building renewal projects as outlined above, is an authorized use of building renewal funds.

3. Prohibited Expenditures from the Building Renewal Fund (Fund 690) include:

a. New Construction: New construction is the creation of a new facility; the addition, expansion, or extension of space to an existing facility that adds to the building's overall external dimensions, i.e. adds to the gross square footage of the building; or the addition, expansion, extension or creation of any parking lots, drives/streets or sidewalks. Examples include: additions to existing facilities; construction of portable, temporary or permanent buildings; the building of firelanes, drives or additional parking spaces, etc. An incidental addition to a building's overall external dimensions due to code, safety, or handicapped modifications (adding an elevator, modifying an entrance, etc.) is not a prohibited use of building renewal funds.

b. Remodeling Interior Space for Aesthetical or Preferential Reasons Remodeling to change the interior space primarily for aesthetic or preferential reasons is the beautification of space due to personal tastes or preferences. Examples include: changing of interior finishes for color or texture (painting of walls, adding or changing coverings for walls); installation or changing of blinds/drapes, carpet, light fixtures; installation or relocation of a door or window; installation or refinishing of millwork such as bookcases and cabinets, etc.

c. Exterior (Site) Beautification: Exterior beautification is landscaping of the site, the enhancement of existing exterior areas or the development of new areas. Examples include: planting of grass or turf; addition or replacement of plants and trees; outside seating such as plazas, covered areas, amphitheaters; decorative lighting; the installation of signage, etc.

d. Demolition: Demolition consists of the complete removal of any structure. It does not include the razing, wrecking or reworking that is associated with a building renovation, remodel, or other eligible projects. Demolition associated with an approved new construction project shall be funded as part of that new construction project.

e. Purchase of Soft Capital Items: Pursuant to section §15-962, subsection F, Arizona Revised Statutes, "Soft capital allocation monies shall only be used for short-term capital items that are required to meet academic adequacy standards such as technology, textbooks, library resources, instructional aids, pupil transportation vehicles, furniture and equipment."

f. Routine Maintenance: Pursuant to §15-2031, any routine maintenance incurred by school above the statutory 8% of calculated building renewal would be a prohibited expenditure.

Q & A

1. Can Building Renewal dollars be spent on athletic facilities? A school district that receives monies from the building renewal fund shall use the monies primarily for any buildings that are owned by school districts that are required to meet academic standards, and secondly for any other buildings owned by the school district. If the athletic facility were required to meet academic standards, then expenditures would be allowed as a primary use (assuming the expenditure item is within the three permitted areas: major renovation, upgrades that maintain or extend the useful life or infrastructure). If the athletic facility was not required to meet academic standards, then expenditures would be allowed as a secondary use (once again assuming the expenditure item is within the three permitted areas: major renovation, upgrades that maintain or extend the useful life or infrastructure).
2. Can Building Renewal monies be used to relocate a portable? No. Monies may not be used for the relocating of portable, temporary or permanent buildings. The relocation does not fit within the three permitted uses: major renovation, upgrades that maintain or extend the useful life or infrastructure.
3. Can Building Renewal monies be used to complete shell space? No. Completion of shell space that has not been finished as part of an original construction project is considered new construction and is therefore a prohibited expenditure. Examples include: unfinished rooms or floors in a new or existing building; the completion of an unfinished basement; the conversion of covered areas to building space, etc.

4. Reporting Requirements:

In addition to addressing the areas for which expenditures are allowable from Building Renewal Fund monies, the Students FIRST law also addresses reporting of expenditures. The first of the following sections deals with reporting on the expenditure of monies from the Building Renewal Fund. The second deals with reporting on the expenditure of monies for renovations, remodels, or systems upgrades. These expenditures could come from sources other than the Building Renewal Fund. Also, some allowable expenditures from the Building Renewal Fund, may not need to be reported as renovations.

a. Reporting on the Expenditure of Monies from the Building Renewal Fund Section §15-2031, subsection F, Arizona Revised Statutes: "F. School districts that receive monies from the building renewal fund shall establish a district building renewal fund and shall use the monies in the district building renewal fund only for the purposes prescribed in subsection B of this section. Ending cash balances in a school district's building renewal fund may be used in following fiscal years for building renewal pursuant to subsection B of this section. By October 15 of each year, each school district shall report to the school facilities board the projects funded at each school in the previous fiscal year with monies from the building renewal fund and shall provide an accounting of the monies remaining in the building renewal fund at the end of the previous fiscal year."

b. Reporting on the Expenditure of Monies for Renovations (from the Building Renewal fund and other Funds)

Section §15-2031, subsection D, Arizona Revised Statutes: "D. The school facilities board shall maintain the building renewal data base and use the data base for the computation of the building renewal formula distributions. The board shall ensure that the data base is updated on at least an annual basis to reflect changes in the ages and value of school buildings. The facilities listed in the data base shall include only those buildings that are owned by school districts that are required to meet academic standards. Each school district shall report to the school facilities board no later than September 1 of each year the number and type of school buildings owned by the district, the square footage of each building, the age of each building, the nature of any renovations completed and the cost of any renovations completed. The school facilities board may review or audit, or both, to confirm the information submitted by a school district. The board shall adjust the age of each school facility in the data base whenever a building is significantly upgraded or remodeled. The age of a building that has been significantly upgraded or remodeled shall be recomputed as follows:

1. Divide the cost of the renovation by the building capacity value of the building determined in subsection G, paragraph 3 of this section.
2. Multiply the quotient determined in paragraph 1 of this subsection by the currently listed age of the building in the data base.
3. Subtract the product determined in paragraph 2 of this subsection from the currently listed age of the building in the data base, rounded to the nearest whole number."

B. Administration

The School Facilities Board uses the database to compute building renewal distributions. It is the duty of the SFB to ensure that the database is updated at least annually to reflect changes in the age and value of the buildings.

By September 1, each district must report to the SFB all renovations (*Exhibit Item VIII. B.*) completed in the previous fiscal year using district funds or building renewal for the purpose of database calculations to the adjusted age of the building. The SFB may review or audit or both to confirm the information submitted by the district and then adjust the age of a building that has been significantly upgraded or remodeled.

By October 15, each school district shall:

- Report all projects funded with building renewal from the prior year (*Exhibit Item VIII. B.2*) In order to reconcile balances, the staff may request an accounting of expenditures reported on the Department of Education AFR's.

If the SFB determines that a school district has spent money from building renewal for purposes other than prescribed in ARS §15-2031 subsection B, the SFB shall notify the superintendent of public instruction, who will withhold a corresponding amount from the monies due to the district under capital outlay revenue limit.

- Provide a comprehensive 3 year plan detailing proposed use of building renewal monies.

Failure to submit this report will result in withholding the building renewal distribution until the district complies with the requirements.

C. Building Renewal 3 Year Plan

The SFB has adopted forms to be used to provide a comprehensive 3 year building renewal plan per statute ARS §15-2031.F. The District's summary form is shown in *Exhibit VIII.C*. Each school is identified on a separate sheet and uses the corresponding preventative maintenance categories to forecast replacement life cycle of major systems and equipment. Cost estimating may be taken from the Means indexing or another estimating program or method. Adjustments to available building renewal funds will necessitate prioritizing projects. A district summary of the costs and projected projects for each year will be provided on the cover sheet.

The forms have been individually set up by the SFB staff with available balances and projected building renewal distributions and systems. District personnel then determines if the remaining life cycle and approximate replacement year for building systems and equipment falls within the next 3 years. If funds are available, that project is scheduled. The process of review includes:

1. The staff first checks for accuracy and correct use of forms. If not, their liaison helps them make corrections.
2. The staff checks for appropriateness of the planned projects. The projects must comply with the parameters for using building renewal funds (Policy VIII.A.1 above). If the liaison has any questions regarding the eligibility, the district will be contacted. If it is determined to be ineligible, then the district must revise and resubmit their plan.
3. Each project scheduled for the first year must have a separate cost estimate, breaking down the cost components of the project. These estimates are reviewed for accuracy and appropriateness in conjunction with the building renewal plan forms. If there are any questions, the district will be contacted.
4. Following liaison review, the plan is transmitted to Deputy Director for Facilities to review the summary sheet and first year cost estimates.
5. The Deputy Director verifies that the district has submitted their prior year Building Renewal Expenditure Report as shown in *Exhibit VIIC5*.
6. The plan is submitted to the Board for approval. When the plan is approved by the Board, the District's Building Renewal disbursement is released one-half in November or the month after SFB approval and the second half in May of that fiscal year.

D. Building Renewal Allocation (Standard Practice since FY2001)

In the event that the legislature does not fully fund the requested building renewal distribution, the available amount will be proportionately reduced to correspond to each district's share of the total.

E. Building Renewal

Presented to the Board for information September 6, 2001 The School Facilities Board is required by law to report to the State Treasurer by January 1 of each year the amount of funds from the transaction privilege tax to be credited to the building renewal fund to meet the building renewal need for the next fiscal year. Because the law does not allow the School Facilities Board to request additional funds after January 1, the School Facilities Board will no longer recalculate building renewal after the State Treasurer has been instructed as to the amounts needed for that fiscal year. In other words, the updated square footage and renovation data that school districts provide to the School Facilities Board in September of each year will not be reflected in a district's building renewal distribution until the following fiscal year.